

ICPS newsletter

Privatisation policy: Is there any sense in protracting the denationalisation of state property?

The success and failure of economic reforms in general, and privatisation in particular, depend on how society supports the changes. At an ICPS seminar, Mr. Yevhen Holovakha, a senior research officer at the Institute of Sociology of the National Academy of Sciences of Ukraine, presented the results of a nine-year monitoring of the public's attitude to economic transformation, privatisation, and entrepreneurship. After Mr. Holovakha's presentation, there was a spirited discussion regarding the attitude of Ukrainian society to reforms, and whether privatisation policy matches the real aspirations of Ukrainians

"During *perestroika* years, people lost confidence in the socialist economy and started linking their hopes for economic prosperity with capitalism," stated Mr. Holovakha. "The majority of citizens supported the strategy of land privatisation and privatisation of small- and medium-size companies. However, people regarded privatisation predominantly as a 'revolutionary act of social equity'. They did not consider the restitution of state property to former owners and their heirs, or its sale at commercial auctions, as fair." According to this sociologist, such an understanding of public opinion in Ukraine (as well as in Russia) resulted in choosing a privatisation strategy intended for long postponement of state property denationalisation.

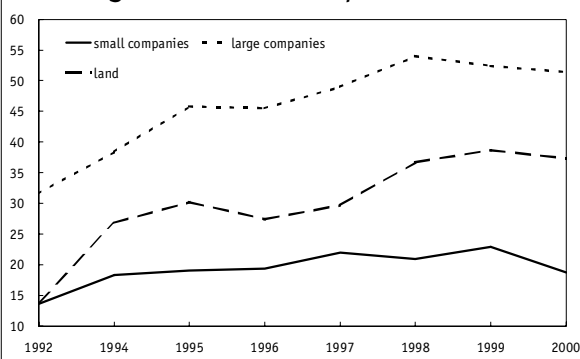
Dr. Vira Nanivska, director of the

International Centre for Policy Studies, interpreted the findings of the survey conducted in 1992 in different way. Dr. Nanivska believes that "deliberated neglect of an obvious fact—the positive attitude of the majority of Ukrainians to private ownership in 1991–92—resulted in a tragic victory of Western intellectual socialism in Ukraine and Russia as an ideology of market reform. Their privatisation theorists relied only on their own intuition, which unfortunately was and remains socialist. This guideline in and of itself resulted in inconsistent actions in the process of privatisation."

"Furthermore," the ICPS Director added, "At the beginning of privatisation, all PR campaigning was directed at the compliance of privatisation with the principles of social equity, not on an

understanding of the major objectives to privatisation—the need for effective owners and creating conditions for competition. The double standard of developing capitalism under socialist slogans resulted in double damage: firstly, important market institutions were not introduced; secondly, the belief in common sense as a possible approach to reforms was destroyed."

Percentage of Ukraine's citizens with negative attitude to privatisation



Last week's events

How to stop the "buying up" of the state?

A seminar titled "Anticorruption and state capture in transition: New findings and what can be done about it" took place on September 6 at the International Centre for Policy Studies.

Daniel Kaufmann (researcher at the World Bank Institute), Viktor Lysytsky (Government Secretary), Viktor Pynzenyk (People's Deputy), and Gregory Jedrzejczak (Head of the World Bank representative office in Ukraine) spoke at the seminar. Methods for preventing corruption while making public decisions, and factors in the battle against "economic schemes" which enable corruption in public offices, were discussed at the meeting.

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Cooperation issues between Ukraine and the World Bank.

The seminar "World Bank projects in Ukraine: Problems and perspectives" took place at the International Centre for Policy Studies On September 10. The seminar was organised by RAND Europe, the International Centre for Policy Studies, and the Accounting Chamber of Ukraine under the program "Developing civil society through civic education: Training for the Ukrainian Accounting Chamber".

During the meeting the following issues were addressed:

- problems with developing and execution of agreements between Ukraine and the World Bank, and legislative regulation of project execution;
- effectiveness of loans use and project management, current control, audit;
- prospects for cooperation.

Seminar participants shared the idea that there is an urgent need to launch new Bank projects designed to reinforce the capacity of Ukrainian government institutions. Such projects would help speed up transformation.

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According to this year's survey, the public attitude to market reforms, privatisation, and entrepreneurship is worse than in the first year of Ukraine's independence. This downswing, Mr. Holovakha believes, resulted from the accumulation of negative emotional reactions related to the prolonged period of highly ineffective transformations. Meanwhile, the sociologist noted, the financial position of a significant share of the population did not get worse but actually improved over the research period.

Mr. Holovakha believes that taking into account current public opinion, which is not quite ready for complete abandonment of state paternalism, major efforts should be

directed at overcoming the stereotypes in public opinion. The public should get rid of its remaining paternalist expectations, and should wholeheartedly embrace the concept of economic initiative. In order to speed up the process of such change, a system of education should be created that promote gradual "privatisation awareness." Privatisation awareness is the realisation of the priority of private economic interests over the interests of the government machine.

Another position emphasised that the most important objective is to develop government and public capacity to adopt and implement transformation policy. "It is

time to quit blaming the 'bad mentality' of the Ukrainian population and start evaluating the very organisation of privatisation activities," emphasised Dr. Nanivska. She believes that the effort should be concentrated on developing new market mechanisms and institutions, as well as reproducing the relevant experience of democratic societies. ■

The seminar "Attitudes to privatisation and economic reforms in Ukraine," held on November 7, 2000, was organised by the Institute of Sociology of the National Academy of Science of Ukraine, the Centre for Economic Development, and the International Centre for Policy Studies.

The volume of bank lending in Ukraine is too low, but it will increase over time

Specialists at the International Centre for Policy Studies have completed their research on "Bank lending in Ukraine," commissioned by the Officers' Business Club. The research assesses the current situation in bank lending in Ukraine, identifies obstacles to increasing the volume of lending, and forecasts the development of bank lending in the next year

Compared to other Central and Eastern European countries with transitional economies, Ukraine's banking system is too small—2–5 times smaller than the ones in Poland, the Czech Republic, Estonia, Slovakia, Slovenia, and Croatia. Notwithstanding, the Ukrainian banking system plays the role of the largest financial intermediary in Ukraine. Compared to other financial institutions—investment funds, credit unions, leasing, insurance, and trust companies—commercial banks are the strongest and the most developed.

Today, the Ukrainian banking system is not executing appropriate functions, including effective allocation of financial resources in the economy, e.g., investing savings in viable, competitive enterprises. Despite the limited resources for business financing and the high demand of businesses for banking services, the volumes of bank lending in Ukraine are insignificant. High loan costs and high risk exposure prevent the essential expansion of bank lending. At the same time, for various reasons, potential depositors are not fully using all the

possible bank services. The Ukrainian banking system should be serving much larger financial flows in the economy. The analysts identified the following reasons for the relatively low volume of bank lending in Ukraine and the high costs of loans:

- scarceness of banking resources, caused especially by the avoidance of banking by potential depositors. This behaviour results from the

need to hide "shadow" incomes, the fiscal functions of banks, low confidence in the banking sector, and inflexibility of depository rates. Another factor are the strict requirements for allocation of attracted capital;

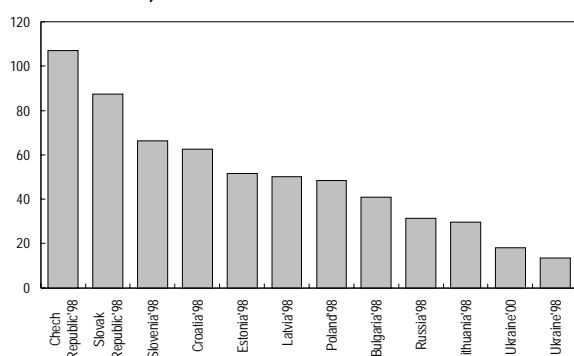
- high operational costs and absence of the economy of scale, caused by the relatively small sizes of Ukrainian commercial banks;
- the short credit history of potential borrowers, given the short period of market reform, long economic recession, and high lending costs;
- shortcomings of the system of contract enforcement in the economy reduce the incentive of banks to lend and increase the riskiness of loans.

ICPS researchers believe that volumes of lending in 2001 will increase by 8% in real terms, due to the following factors:

- expansion of Ukrainian banks' resources, thanks to a gradual increase of deposits;
- real GDP growth (by 4–5%). Rapid development of "loan-hungry" sectors, namely, industry, transportation, telecoms, trade and catering will require bigger amounts of financial resources;
- improvement of the financial position of potential borrowers, caused by the economic revival, will lower credit risks. ■

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Commercial bank assets in transition economies, % GDP



Source: IFS; calculations by ICPS

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